

Remarks of Commissioner Jonathan S. Adelstein

OPASTCO  
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“Meeting the Challenges of Rural Telecommunications”

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Thank you John Rose for that kind introduction.

John Rose and his staff do a tremendous job of representing you here in Washington. They are truly effective advocates on your behalf.

Your presence here today tells me that you are leaders not only in your own communities but also on a national level. I certainly appreciate the support that all of you provided during my long nomination ordeal. It really meant a lot to me that people like yourselves, who are pillars of your local communities, took time to lend your support on my behalf. I just hope I can live up to your expectations now that we got that job done!

We start from sharing a common goal: to provide and maintain a rural telecommunications system second to none. In order to achieve this goal, we must unite together to deliver for Rural America solutions that work for consumers in the marketplace. Congress made it clear in the 1996 Act that rural consumers are to receive affordable telecommunications services comparable in both quality and price to urban areas.

My role as a Commissioner is to implement the law as written by Congress. So you are fortunate that Congress spent a lot of time addressing the concerns of the small and rural telecom companies.

Congress determined that the two foundational pillars of the Act are universal service and competition. Federal support is intended to promote universal service, not to subsidize artificial competition – or, for that matter, to keep competition at bay. Neither of these pillars should be promoted at the expense of the other. In fact, I see these two pillars as the means to the goal established by Congress: ensuring that all Americans, rural and urban, have access at reasonable and affordable rates to the best telecommunications network in the world.

I have spent my entire career in public service and am here to protect the public interest. The Telecom Act of 1996 was ultimately written for consumers. It was meant to ensure that the FCC creates a stable and clear regulatory environment that promotes competition and investment in our telecommunications infrastructure so that consumers can benefit from the most advanced technologies at reasonable rates.

I'd like to begin today by focusing on one of those pillars: universal service.

Commissioner Michael Copps and I began a rotation schedule on the Federal-State Joint Board on Universal Service that allowed me to join it recently. Commissioner Copps has done an outstanding job of leading the fight for Rural America and for universal service, so it's a great honor to follow him.

Since there is only one slot for a Democrat, Commissioner Copps and I agreed to take turns, while conferring closely with one another on how to get the best possible outcome for universal service. I will be active in the Joint Board proceedings this year with Commissioner Copps returning at some point in 2004. I look forward to more opportunities to sit down and address these issues with many of you. This gives us an opportunity to work together to solve some big challenges.

I'm excited about this new responsibility, because universal service is the bedrock principle of American telecommunications policy. It says that everyone in this country should get comparable service at comparable rates, no matter where they live. In the 1996 Act, Congress mentioned "advanced services" five times in the section dealing with universal service. The Act makes clear we must extend the benefits of the latest technologies to everyone. The goal is to ensure that quality services are available at reasonable rates to everyone – even where competition and the marketplace fall short.

Congress clearly gave a high priority to rural concerns in drafting the universal service provisions of the Telecom Act. It is my goal to ensure that in turn the Commission gives rural concerns the high level of concern that it is due.

I understand that last month you met with ITTA, NECA, NTCA, USTA and the Western Alliance to discuss universal service issues. I'm very pleased that you are discussing these issues with your brethren. I commend you for the doing the hard work that led to the recent release of your paper: "Universal Service In Rural America: A Congressional Mandate." It's clear you put a great deal of time and thought into it. I appreciate and encourage your leadership in this area.

One of the other top priorities of the Act and, therefore, a central focus of mine as a Commissioner, is to speed the deployment of broadband services. The Act makes clear we must extend the benefits of the latest technologies to all Americans – whether they live in the inner city, the suburbs or rural areas. Another top priority of mine is to secure the future of universal service. These two priorities are linked, because unless universal service works the right way, Rural America will lack the foundation we need to speed broadband deployment.

In my home state of South Dakota – even with all the obstacles facing rural areas – many of the smallest communities have broadband – some even have competing providers. That accomplishment is a tribute to many of the people in this room. You and your communities are models of what is possible in rural America.

I'm committed to making sure that you can maintain this level of service. You understand first-hand that as technology advances, so must our efforts to keep up. That means continued network investment – which requires continued support from universal service. That support must be, as required by the Act, at levels that are specific, predictable, and sufficient in order to provide for critical infrastructure in our rural areas.

I know you care deeply about this, and so do I.

Although universal service doesn't directly support advanced services, it's a vital mechanism that lays the groundwork for the creation of the broadband networks of the future. The high-bandwidth applications, like video services, that will drive revenues and expand opportunities will ride on these networks. And universal service will play a key role in bringing them to everyone in America.

Congress gave the states well-defined and important responsibilities as partners in achieving this balance. The State Commissioners play a key role in determining if a competitor is eligible for universal service support. They need to take great care in doing this – greater care, in my opinion, than some have in the recent past. This designation is critical to all carriers serving high-cost areas. And it's a key factor in allocating limited – and shrinking – universal service funds.

As we all know, the universal service fund is growing. And it is true that its growth has allowed for some great things to happen. We've succeeded in wiring the classrooms through the Schools and Libraries program. And I understand from USAC that the Rural Health Care program has turned a corner and is becoming the wonderful program it was intended to be. We've helped low income and rural customers acquire and retain access to a top-quality network. But the job is never done. The fund continues to grow, and we must remain vigilant about that.

There are a few high cost universal service issues that the Commission is addressing soon and I encourage you to continue to remain as engaged as you are.

One issue that we're currently discussing at the Joint Board level is portability of universal service funding. Congress intended that when appropriate, competitive carriers should have access to high cost funds on a technologically neutral basis. It's up to the FCC to make this work well. You've expressed concerns about competitors receiving funding at the per-line levels at which you receive funding. We plan to address this issue.

We've also heard discussion about whether competitive carriers should have access for funding depending on if the lines they serve are "captured" from the incumbents or if they are "new" lines. This is another issue on the Joint Board's plate. This debate invariably raises the question of funding for second lines, a battle that I know was very hard fought by you. So I believe that small companies must begin again to prepare to address the issue of funding second lines. Clearly, suggesting that competitive carriers cannot get funding for "new" lines that are not "captured" from the incumbent calls into question the Commission's treatment of second lines.

I would also suggest that you pay a great deal of attention to the contribution methodology discussions. Just last week the Commission released a Bureau study relating to the alternative methodologies for calculating contributions to the universal service support mechanisms. As you may know, in December, the Commission adopted an order modifying the

universal service contribution methodology. It tweaked the current revenue-based contribution methodology and raised the wireless safe harbor from 15% to 28.5%.

Another important step that the Commission took in this Order was to rule that the amount of the universal service line item charge may not exceed the interstate telecommunications portion of the customer's bill times the relevant contribution factor. Although we do not yet have the current revenue figures before us for the second quarter, we estimate that the contribution factor for the second quarter of 2003 might be close to 9%. The new rule the Commission put in place will preclude carriers from using a factor greater than their own contribution factor in determining the end users' line item.

We're also looking at the definition of supported services. As many of you know, the Joint Board was deadlocked on whether carriers should be required to provide equal access in order to receive universal service funding. As such, the Joint Board turned the question over to us without a recommendation.

Another issue that will occupy a great deal of our time is whether the FCC should treat the provision of broadband services by incumbent local exchange carriers as a telecommunications service regulated under Title II of the Communications Act – which is the Common Carrier portion of the Act – or as an information service under Title I – the general provisions of the Act. This seemingly simple difference can have huge ramifications for universal service.

If these broadband services are classified as information services, the FCC could lose much of the oversight that comes with Title II. And information service providers don't now contribute to universal service. An information service classification would raise a lot of questions. Does it mean, for example, that revenues from these services couldn't contribute toward universal service? Would carriers be able to use the normal cost recovery mechanisms to recover their costs of providing these advanced services? What are the national security implications? We've got to think hard about this at a time when the demands on the fund are increasing and contributions are decreasing.

Although I haven't yet decided whether, or how, to change the universal service system, I'm committed to ensuring that the fund will continue to meet the demands placed on it. And I plan to work closely with all of you in thinking this through. One thing I intend to consider is whether all providers that compete with each other and provide the same functions have the same contribution responsibilities and, if not, whether they should. We shouldn't craft universal service obligations in such a way that they unfairly benefit or burden contributors who compete in the marketplace. Ideally, funding should come from the broadest base of providers and services.

Let's turn to wireless services for a moment, because I think they offer great potential for rural America. We need to encourage new and innovative technologies, and more efficient spectrum management, to maximize that potential.

The FCC can and should do more to promote access to wireless services by rural consumers. One great way to do that is to get spectrum into the hands of community-based providers like you. You've proven time and again that your first priority is serving your local

communities. The FCC needs to promote better policies that improve availability of licenses to rural providers.

I'm concerned that large wireless license areas raise auction prices so high that rural telephone companies can't even afford to make a first bid. And while we've seen some success in the after market, we can do much more to get licenses into the hands of rural providers in the first place. So, in future auctions, I'll support the use of smaller wireless license areas that better reflect your customer base. For example, last year, several rural telcos in South Dakota banded together to buy a number of smaller licenses. The point of the sale was to get the licenses in the hands of community-based providers in order to serve their own rural customers – not for someone to speculate and sell it later – or worse yet, to let it lie fallow. I want to see more of this.

In addition, we need to revisit the FCC's build-out rules. I'm concerned that the current rules can indirectly undercut the ability of rural carriers to get access to spectrum in their own neighborhoods.

As many of you know, the FCC recently began reviewing how all of its current wireless rules affect rural areas. Comments are being filed, and I strongly encourage you to make your voices heard in this proceeding.

Rural America will win in the end. We have the right tools and the right commitment to drive deployment to each and every community in this country. And no one has a better track record of doing so than community-based telecom providers like you. It's my job to help you get the support you need – and are entitled to by law – to accomplish that mission.

Rural America has a friend at the FCC in me, and I'm lucky enough to have friends throughout the heartland. Together, we can achieve great results, so that rural America will be as connected to the world as anywhere else! And our people will be able to reach out to anyplace else within milliseconds – maybe a little slower – but maybe faster – than anyone else in the world!

I've been called to testify at the Senate Commerce Committee, so I need to run to the Hill. I look forward to working with all of you as we tackle together the challenges ahead of us. Thank you for having me with you this morning.